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"TEAMWORK: A PROACTIVE APPROACH TO FINANCING FARMING"

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TEAMWORK: A PROACTIVE APPROACH TO FINANCING FARMING¹

BY

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THANK YOU DON (GARY) FOR THAT INTRODUCTION. I ALSO WANT TO EXPRESS MY APPRECIATION TO THE AIC FOR THE OPPORTUNITY TO ADDRESS THIS AUDIENCE OF AGRICULTURAL LEADERS; MEN AND WOMEN WHO SHARE MY CONCERN ABOUT THE FINANCIAL STRESS ON AMERICA'S FARMS; PEOPLE WHO ARE SEARCHING FOR SOLUTIONS TO TODAY'S PROBLEMS AND ANTICIPATING TOMORROW'S OPPORTUNITIES. EACH OF YOU ATTENDING THIS CONFERENCE IS AN OPTIMIST. YOU ACCEPT THE CHALLENGE OF TODAY AND YOU PLAN FOR A BRIGHTER TOMORROW. THERE ARE MANY DEFINITIONS OF AN OPTIMIST BUT I LIKE MY WIFE'S DEFINITION. SHE CALLS ME AN OPTIMIST BECAUSE I GO TO THE COURTHOUSE ONCE EACH YEAR, ON OUR ANNIVERSARY, TO SEE IF MY MARRIAGE LICENSE HAS EXPIRED.

LET ME NOW DIRECT YOUR ATTENTION TO THE TOPIC AT HAND-- "TEAMWORK: A PROACTIVE APPROACH TO FINANCING FARMING;" A TOPIC THAT SPEAKS TO THE WHY'S AND WHEREFORE'S OF FINANCIAL SUCCESS IN FARMING. I HAVE CONCLUDED, AFTER BEING RAISED ON A FARM AND STUDYING FARM BUSINESSES FOR THE PAST 20 YEARS, THAT ECONOMIC DISTRESS ON FARMS IS LARGELY A RESULT OF A REACTIVE MANAGEMENT

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STYLE. ON THE OTHER HAND, SUCCESS IS GENERALLY ASSOCIATED WITH A PROACTIVE APPROACH TO MANAGEMENT. THE REACTIVE MANAGER SEEMINGLY WORKS AND MAKE DECISIONS IN ISOLATION, IS DOING LAST WEEK'S WORK TODAY, OR IS WAITING FOR THE NEXT CATASTROPHE TO HAPPEN, AND IS ALWAYS OPERATING IN A CRISIS MODE WITH FEW THINGS, IF ANY, UNDER CONTROL. THE PROACTIVE MANAGER PLANS AHEAD, ANTICIPATES PROBLEMS, WORKS CLOSELY WITH ADVISORS, AND, IN CONTRAST, OPERATES IN AN OPPORTUNISITIC MODE WITH AS MUCH UNDER CONTROL AS IS POSSIBLE.

TODAY'S FARM ECONOMY IS IN THE MIDST OF ANOTHER REVOLUTION. WE'VE WITNESSED, DURING THIS CENTURY, A REVOLUTION FROM HORSES TO MACHINES AND ANOTHER REVOLUTION AS THE APPLICATION OF SCIENCE INCREASED YIELDS FOUR TO FIVE FOLD. WE'VE COME THROUGH A PERIOD DURING THE PAST 25 YEARS WHEN PRODUCTION SUCCESS WAS SYNONYMOUS WITH ECONOMIC SUCCESS. FARMERS ARE NOW EXPERIENCING A THIRD REVOLUTION; A FINANCIAL REVOLUTION THAT WILL REQUIRE A PROACTIVE APPROACH TO MONEY MANAGEMENT IF FARM BUSINESSES ARE TO SURVIVE. A RECENT SURVEY CONDUCTED BY ARTHUR ANDERSON AND COMPANY, A MAJOR ACCOUNTING FIRM IN THE U.S., CONCLUDED THAT ONLY ABOUT ONE PERCENT OF U.S. FARMS HAD THE KIND OF INFORMATION THAT LENDERS REQUIRE OF EVERY OTHER BUSINESS BEFORE A LOAN IS GRANTED. OTHER BUSINESSES MUST PRESENT THREE TO FIVE YEARS OF AUDITED FINANCIAL STATEMENTS, ALONG WITH PRO-FORMA STATEMENTS, FOR LOANS OF ANY CONSEQUENCE. MOST FARMERS SOMEHOW EXPECT THAT FIVE YEARS OF FIELD NOTES IN A DEKALB SEED BOOK IS ADEQUATE LOAN DOCUMENTATION. THERE ARE A GREAT NUMBER OF FARMERS WHO ARE FORCED TO SELL CROPS AT LOW PRICES BECAUSE THEY DO NOT PLAN ADEQUATELY FOR CASH NEEDS. OTHERS ARE FACING FINANCIAL DIFFICULTY BECAUSE THEY, WITH THE HELP

OF THEIR LENDER IN SOME CASES, BORROWED MORE MONEY THAN PRUDENT MANAGEMENT WOULD HAVE SEEN FIT. MANY FARMERS CONTINUE TO LABOR UNDER THE NOTION THAT GOOD PRODUCTION SKILLS WILL SEE THEM THROUGH TO SUCCESS. STILL OTHERS CONFUSE CASH AVAILABILITY WITH PROFITABILITY AND EVENTUALLY END UP OUT OF CASH AND NO WHERE TO TURN FOR HELP. THOSE FARMERS THAT CONTINUE TO MANAGE THEIR FINANCES IN THIS REACTIVE MANNER WILL ACCOMPLISH LITTLE MORE THAN TO FOLLOW THEIR DREAM TO THE COURTHOUSE STEPS AND WATCH AS IT IS SOLD. THERE IS, HOWEVER, REASON FOR OPTIMISM; MONEY MANAGEMENT SKILLS CAN BE CHANGED, DISASTERS CAN BE AVOIDED, AND FARM BUSINESSES CAN SURVIVE THIS ECONOMIC REVOLUTION.

A NECESSARY ELEMENT, AS I SEE IT, FOR SURVIVAL IS THE ADOPTION OF A TEAM APPROACH TO FINANCIAL MANAGEMENT THAT MOVES FORWARD WITH OPTIMISM. I'M NOT REFERRING TO BLIND OPTIMISM BUT TO OPTIMISM THAT IS CREATED AS FARMERS AND LENDERS WORK TOGETHER TO FIND SATISFACTORY SOLUTIONS TO FINANCIAL PROBLEMS. WORKING TOGETHER IN A COOPERATIVE ENVIRONMENT CAN ONLY IMPROVE CHANCES OF SURVIVAL. WHAT IS BEST FOR THE FARM FAMILY CAN ONLY BE ACHIEVED IF BOTH THE FARMER AND THE LENDER RECOGNIZE AND FULFILL THEIR RESPONSIBILITY TO THE FINANCIAL MANAGEMENT TEAM.

FARMERS THEMSELVES CARRY THE GREATEST BURDEN IN DEVELOPING THIS TEAM APPROACH. AFTERALL, IT IS THE FARMER WHO IS ASKING TO USE SOMEONE ELSE'S MONEY. IT IS UP TO THE FARMER TO CONVINCE THE LENDER THAT HE OR SHE HAS THE ABILITY TO PROPERLY MANAGE MONEY OR TO LOSE OUT TO SOMEONE WHO CAN. BORROWERS MUST NOT ISSUE RED FLAGS THAT CAUSE THE LENDER TO BE CONCERNED AND POSSIBLY DENY THE LOAN. SOME SUCH RED FLAGS MIGHT BE: (1) FAILURE TO

MAKE FULL DISCLOSURE OF ASSETS AND LIABILITIES, (2) RELUCTANCE TO DISCLOSE INCOME, EXPENSE, AND PRODUCTION RECORDS, (3) DISPLAYING AN ANTAGONISTIC ATTITUDE, (4) MAKING MAJOR PURCHASES BEFORE ARRANGING FINANCING, AND (5) HAVING NUMEROUS CREDITORS. ON THE OTHER HAND, THE BORROWER SHOULD EXHIBIT FORESIGHT AND PLANNING, SEEK THE LENDER'S ADVICE BEFORE MAKING MAJOR DECISIONS, AND BE WILLING TO LISTEN TO IDEAS THE LENDER MAY HAVE FOR IMPROVING THE FARM BUSINESS. BEFORE ASKING FOR CREDIT THE FARMER SHOULD TAKE TIME TO DETERMINE HOW THE LOAN APPLICATION LOOKS FROM THE OTHER SIDE OF THE DESK. THE FARMERS SHOULD NOT EXPECT THE LENDER TO PREPARE THE LOAN DOCUMENTS. ASKING THE OTHER PARTY TO DO WORK THAT IS RIGHTLY YOURS DOESN'T DO MUCH TO FOSTER A GOOD WORKING RELATIONSHIP. THE BORROWER SHOULD COME TO THE LENDER'S OFFICE WITH A PLAN THAT EXPLAINS WHY MONEY IS NEEDED AND WHEN AND HOW IT WILL BE REPAID. THE LENDER NEEDS A PLAN TO EVALUATE BEFORE MAKING A LOAN COMMITMENT. MORE AND MORE LENDERS ARE RIGHTFULLY ADOPTING AN ATTITUDE OF, "NO DOCUMENTED PLAN--NO LOAN." THE LOAN APPLICATION SHOULD INCLUDE COMPLETED BALANCE SHEETS, INCOME STATEMENTS, AND PROJECTED CASH FLOWS. THESE FINANCIAL INSTRUMENTS WILL DOCUMENT THE LOAN REQUEST AND ENABLE THE LENDER TO EVALUATE IT IN TERMS HE UNDERSTANDS AND MUST USE--SECURITY, PROFITABILITY, AND LIQUIDITY.

LIKewise, LENDERS MUST FULFILL THEIR RESPONSIBILITY TO THE FINANCIAL PLANNING TEAM IF IT IS TO BE EFFECTIVE IN ASSURING SURVIVAL OF THE FARM BUSINESS. THESE RESPONSIBILITIES WOULD INCLUDE: (1) LISTENING TO AND NOT PRE-JUDGING THE FARMER'S PLAN, (2) UNDERSTANDING THE FARMING BUSINESS, (3) BEING ABLE TO TACTFULLY SAY NO AND EXPLAIN WHY NOT WHEN NECESSARY, (4) VISITING

AND BECOMING FAMILIAR WITH THE FARM REQUESTING THE LOAN, AND MOST OF ALL (5) BY NOT BEING A FAIR-WEATHER LENDER. HELPING THE FARMER DEVELOP AND EVALUATE A PLAN THAT DEMONSTRATES PROMISE AND STICKING WITH THE FARMER THROUGH PERIODS OF UNEXPECTED ADVERSITY IS A MUST FOR THE LENDER IF THE TEAM APPROACH IS TO WORK.

LET ME NOW SUMMARIZE MY THOUGHTS AND CONCERNS. FIRST, I BELIEVE THAT MUCH OF THE ECONOMIC DIFFICULTY OUR FARMERS ARE EXPERIENCING IS DIRECTLY RELATED TO THEIR REACTIVE MANAGEMENT STYLE, TYPIFIED BY THEIR LACK OF PLANNING. SECOND, IF FARMERS ARE TO SURVIVE THE FINANCIAL REVOLUTION TAKING PLACE TODAY, THEY AND THEIR LENDERS WILL NEED TO ADOPT A PROACTIVE MANAGEMENT STRATEGY WHICH ANTICIPATES AND PLANS TO USE MONEY IN A SAFE, EFFICIENT, AND PROFITABLE MANNER. THIRD, RECOGNIZING THE NEED FOR AND IMPLEMENTING A TEAM APPROACH TO FINANCIAL MANAGEMENT WILL RESCUE SOME FARMS FROM THE BRINK OF DISASTER, WILL PREVENT OTHERS FROM REACHING THAT STATE, AND WILL INSURE THE SURVIVAL OF THE FAMILY FARM. WITHOUT IT THE FAMILY FARM WILL FLOUNDER IN DESPAIR AS ADEPT MONEY MANAGEMENT TEAMS FROM CHICAGO, NEW YORK, ENGLAND, AND GERMANY SEIZE OPPORTUNITIES CREATED BY BORROWERS AND LENDERS WHO ARE UNWILLING TO WORK TOGETHER TO SOLVE TODAY'S PROBLEMS AND PLAN FOR TOMORROW'S OPPORTUNITIES.

THANK YOU.

